

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
Dick Ackerman
Denise Moreno Ducheny



Tuesday, December 9, 2003
1:00 PM
Room 4203

<u>Item</u>	<u>Department</u>	<u>Page</u>
2150	Department of Financial Institutions.....	2
2180	Department of Corporations.....	2
2240	Department of Housing and Community Development.....	2
2260	California Housing Finance Agency.....	3
2310	Office of Real Estate Appraisers.....	3
2660	Department of Transportation.....	3
2740	Department of Motor Vehicles.....	5
2920	Technology, Trade, and Commerce.....	5
9100	Tax Relief.....	5
9430	Apportionment.....	6
9901	Control Section 4.10.....	6

Overview

As part of the current-year reductions proposed in special session, the Administration has identified \$2.26 billion in current-year savings, and \$1.62 billion in 2004-05. Of this amount, Subcommittee 4 is responsible for reviewing approximately \$1.7 billion of the reductions. A majority of these savings can be attributed to the following items:

- Department of Transportation: \$930 million
- Tax Relief: \$475 million
- Control Section 4.10 reductions: \$150 million

This agenda provides an overview and summary of the Governor's mid-year reduction proposals.

2150 Department of Financial Institutions

Proposal. The Administration proposes to loan \$1.8 million from the Credit Union Fund to the General Fund. The Administration estimates a 2003-04 reserve of \$2.8 million for the Credit Union Fund. The proposal would leave a three-month reserve (\$874,000) in the fund.

Staff Comments. No repayment date is specified, but language is proposed indicating that programs will not be adversely affected by the loan. In 2002-03, a similar loan of \$2.7 million was approved. No issues have been raised with this proposal.

2180 Department of Corporations

Proposal. The Administration proposes to transfer to the General Fund \$500,000 in the current year and \$1 million in the budget year in additional fines and penalties. The Administration indicates that current enforcement cases underway will generate fines and penalties that can be transferred to the General Fund.

Staff Comments. The department indicates that these fines and penalties are from enforcement activities in a number of large cases that are currently ongoing. In 2002-03, \$9 million in fines and penalties was transferred to the General Fund. In the current year, \$44.4 million from a large securities case was transferred. No issues have been raised with this proposal.

2240 Department of Housing and Community Development

Proposal: The Administration proposes to disencumber funds from project savings, or from projects that have not gone forward due to changes in project feasibility. This proposal would result in one-time savings of \$5 million in the current fiscal-year.

Staff Comments: No issues have been raised with this item.

Proposal: The Administration proposes to close the Blythe migrant farmworker housing center. The Administration states there is an 82 percent vacancy rate at the center.

Staff Comments: No issues have been raised with this proposal.

2260 California Housing Finance Agency

Proposal: The Administration proposes to return funds from the Housing Downpayment Assistance Program to the General Fund. The Administration states that a similar loan was approved in the 2002 Budget Act. This proposal would result in one-time savings of \$3.9 million in the current fiscal-year.

Staff Comments: Proposition 46 Bond Funds are available in lieu of these General Fund dollars. No issues have been raised with the Administration's proposal.

2310 Office of Real Estate Appraisers

Proposal: The Administration proposes to loan \$2 million from the Real Estate Appraiser Regulation Fund to General Fund. According to the Department of Finance, the Appraiser Regulation Fund is projected to have a fund balance by the end of the current fiscal-year.

Staff Comments: No issues have been raised with this proposal.

2660 Department of Transportation

Proposal: The Administration is proposing total General Fund savings of \$885.4 million in the current fiscal-year, and \$47.2 million in 2004-05. The following items highlight the main components of the Administration's proposal:

1. Transfer \$800 million from the State Highway Account to the General Fund by utilizing cash management of Obligation Authority (OA) funds. As a result of this transfer, the Administration proposes the following:
 - Repay the General Fund for debt service on current transportation general obligation bonds (\$406 million).
 - Loan \$200 million to the General Fund for up to 3 years.
 - Transfer income from the sale of property and rental income to the General Fund (\$108 million over two years).

Issues: Staff recommends the subcommittee direct the Transportation Commission (CTC), and the Department of Finance (DOF) to respond to the following questions:

CTC

- Please explain how OA funds are currently administered.
- What is the impact on local agencies who sponsor projects funded by federal OA?
- Please identify the workload increases that will result from switching to cash-flow management of these funds.

DOF

- The subcommittee has been informed that Caltrans has already used some \$300 million in OA to meet the cash needs of existing projects. If so, is \$800 million still available for General Fund relief?
- In a previous document provided to the committee on November 24, the Administration identified \$310.4 million in savings. The committee recently received a revised

document on December 1 that identifies \$666.4 million in savings. Please explain the discrepancy in proposed savings.

- How does the proposal to spend more than half of the \$800 million in OA funds on rail bond debt service meet the constitutional test outlined by the appellate court in *PECG v. Wilson*, (1998)? [NOTE: The court in that case ruled that using SHA funds to meet rail bond expenses violated Section 4 of Article XIX of the state constitution).
 - How much of the \$108 in non-article XIX funds proposed to be transferred to the General Fund is federal funding? Does the federal government require reimbursement if those funds are used for non-transportation purposes?
2. Retain gasoline sales tax revenue in the General Fund (\$30 million). The sales tax on gasoline and diesel sales is allocated for transportation purposes. A portion of the sales tax on gasoline (and diesel sales) is allocated to the Public Transportation Account (PTA). When gasoline prices are high relative to other sales, the PTA receives the “spillover” sales tax revenues.
 3. Transfer \$189 million from the Traffic Congestion Relief Fund to the General Fund, and repeal the statutory authority for the projects in the Traffic Congestion Relief Program (TCRP). The Administration indicates that the TCR project sponsors will have to secure funding through the State Transportation Improvement Program (STIP), or local funding mechanisms.

Issues: The TCRP authorized \$4.9 billion for 159 specific projects over a 5-year period. The recent cash flow estimate for currently allocated TCR projects estimates that only \$74 million will be unexpended at the end of the year. This raises the question of how the Administration intends to capture \$189 million if the majority of these funds are expended? Another issue to consider is what effect this proposal will have on existing contracts. Taking the \$189 million from the TCRF will likely cause a number of contracts to be cancelled. In the likelihood that contracts are terminated, the Administration should identify all costs associated with the contract terminations. Who is going to pay these costs and what fund source(s) will be used?

Another problem with this proposal is incorporating the TCR projects in the STIP. The draft 2004 STIP Fund Estimate results in taking \$5.5 billion in projects and rescheduling them over the 5 years of the 2004 STIP. This assumes the Transportation Investment Fund (TIF) transfers to the STIP and PTA. If the Administration proposes to suspend the TIF transfers in the 2004-05 budget-year, the Transportation Commission (CTC) will likely have to deprogram projects.

Staff Comments/Questions: Staff recommends the subcommittee direct the Department of Finance respond to the following questions:

- Would the transit projects contained in the TCRP be eligible for programming in the STIP? If not, what happens to the funding commitment to those projects?
- Has the Administration considered the legal issues involving Proposition 42 and the dedication of revenues for TCR projects? Does the Administration’s proposed trailer bill

language to repeal the authority for the TCR projects satisfy the requirements of Proposition 42?

- If the Administration proposes to suspend Proposition 42 in the budget-year, how will the STIP absorb 159 new projects? The 2004 STIP proposes no new projects over the next five years.

2740 Department of Motor Vehicles

Proposal: The Administration proposes to terminate the final phase of audit activities on the 2000 Vehicle License Fee Rebate Program, and transfer the costs of the department's Anatomical Donor Designation Program to the Motor Vehicle Account. This proposal would result in current-year savings of \$600,000 and budget-year savings of \$200,000.

Staff Comments: No issues have been raised with this proposal.

2920 Technology, Trade, and Commerce Agency

Proposal: The Administration proposes to transfer revenues from certain special funds to the General Fund, due to the abolishment of the Agency on January 1, 2003. The Department of Finance (DOF) states that all future loan repayments and obligations associated with these special funds will become the responsibility of the General Fund. According to the Administration, this proposal would result in current-year savings of \$6.6 million.

Staff Comments: Prior to taking action on this item, the Administration should provide the following information to the subcommittee:

1. Specify all funds that will be included in this proposal. Will there need to be statutory changes to authorize the transfer of fund balances from these accounts?
2. Please identify all obligations that are scheduled for payment through 2004-05.
3. What is the net difference between the identified General Fund savings (\$6.6 million), and all expenditures that will be paid from the General Fund if this proposal is approved?

9100 Tax Relief

Proposal: The current-year budget agreement assumes that local governments will lose \$825 million as a result of the implementation lag of the higher vehicle license fees. The General Fund is scheduled to repay this loss in the 2006-2007 fiscal-year.

The Department of Finance estimates that the loss of revenues to local governments is now \$1.3 billion (\$475 million above projections). This proposal will add the additional \$475 million to the amount scheduled for repayment in 206-2007.

Staff Comments: Subcommittee staff has no comment on this particular proposal. It should be noted that SB 1 5X (Brulte), which is sponsored by the Administration, has been referred to Senate Local Government Committee. SB 1 5X appropriates \$3.625 billion to pay the Vehicle License Fee backfill to local governments and VLF refunds for the 2003-04 fiscal-year.

9430 Apportionment-Vehicle License Fees

Proposal: The Administration proposes to eliminate the backfill requirement associated with vehicle truck weight fees. Senate Bill 2084 (Polanco, Chapter 861, Statutes of 2000), revamped the commercial vehicle registration system by authorizing the state to convert from an unladen weight system to a gross vehicle weight system (GVW), and by initiating a permanent trailer identification program (PTI). The new system established by SB 2084 also exempts trailers and semitrailers from vehicle registration and payment of the vehicle license fee. The General Fund is required to backfill the revenue lost to local governments.

Staff Comments: This proposal will result in General Fund savings of \$5.9 million in 2003-04, and \$11.8 million in 2004-2005. The proposal will also result in a revenue lost to local governments. The committee has not received information that suggests a payback or loan will be provided to local governments. The Administration has not indicated if the backfill will be included in other VLF-backfill sponsored legislation.

9901 Additional Control Section 4.10 Reductions

Proposal. The Administration proposes an additional \$150 million in General Fund reductions to various departments pursuant to Control Section 4.10 in the current year. At this time DOF has not identified which departments will face additional reductions.

Staff Comments. Control Section 4.10 was approved as part of the 2003 Budget Act because the Act did not provide additional funds to departments for employee compensation increases. The Control Section provides the director of the DOF with the authority to reduce appropriations of departments and to reallocate funds among departments. The DOF indicates that based on the 15 percent cap specified in Control Section 4.10, there exists authority for additional cuts to state operations budget authority of up to \$1.1 billion. DOF has not yet identified which departments will have additional reductions to meet the proposed \$150 million target. Additional reductions will likely require layoffs and will thus could be difficult to achieve in the current year. The DOF may be considering one-time operating reductions to reach the target for the current year. The Subcommittee may wish to ask DOF about the timeline is for identifying the \$150 million in reductions.